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U.S. DISTRICT COURT
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**IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK**

LIBERTY MUTUAL FIRE INSURANCE COMPANY
as Subrogee of Jeffrey Aveis

INDEX NO.:

Rule 7.1 Statement

Plaintiff,

v.

PB HEAT LLC
doing business as PEERLESS BOILERS
and

07 CIV. 3352

BOTTINI FUEL OIL CORPORATION

Defendants.

BRIANT

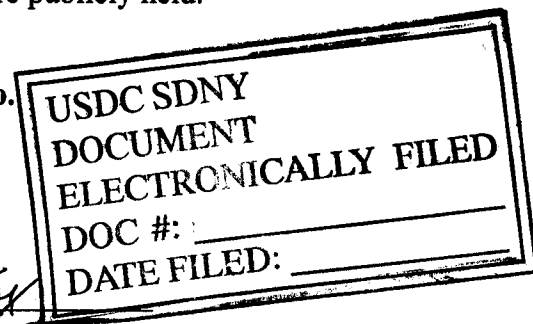
Pursuant to Federal Rule of Civil Procedure 7.1 [formerly Local General Rule 1.9] and to enable District Judges and Magistrate Judges of the Court to evaluate possible disqualification or recusal, the undersigned counsel for **LIBERTY MUTUAL FIRE INSURANCE COMPANY**, (a private non-governmental party) certifies that the following are corporate parents, affiliates and/or subsidiaries of said party, which are publicly held.

See corporate affiliations statement attached hereto.

Date: April 23, 2007


Douglas B. Fox

Attorney Bar Code: DF5799



REINSURANCE PROGRAMS

For a detailed discussion of reinsurance, refer to the report of Liberty Mutual Insurance Companies.

BALANCE SHEET

ADMITTED ASSETS (\$000)

	12/31/05	12/31/04	'05%	'04%
Bonds	2,106,523	1,911,210	69.8	68.9
Preferred stock	4,520	7,307	0.1	0.3
Common stock	165,869	195,613	5.5	7.1
Cash & short-term invest	53,796	65,949	1.8	2.4
Other non-affil inv asset	100,822	93,570	3.3	3.4
Investments in affiliates	43,168	30,791	1.4	1.1
Total invested assets	2,474,698	2,304,440	82.0	83.1
Premium balances	347,322	335,400	11.5	12.1
Accrued interest	21,355	18,758	0.7	0.7
All other assets	173,437	115,491	5.7	4.2
Total assets	3,016,812	2,774,089	100.0	100.0

LIABILITIES & SURPLUS (\$000)

	12/31/05	12/31/04	'05%	'04%
Loss & LAE reserves	1,711,688	1,594,426	56.7	57.5
Unearned premiums	419,930	403,392	13.9	14.5
All other liabilities	55,219	103,526	1.8	3.7
Total liabilities	2,186,838	2,101,344	72.5	75.7
Capital & assigned surplus	303,727	200,187	10.1	7.2
Unassigned surplus	526,247	472,558	17.4	17.0
Total policyholders' surplus	829,974	672,745	27.5	24.3
Total liabilities & surplus	3,016,812	2,774,089	100.0	100.0

SUMMARY OF 2005 OPERATIONS (\$000)

	12/31/05	Funds Provided from Operations	12/31/05
Statement of Income			
Premiums earned	1,035,969	Premiums collected	1,043,531
Losses incurred	660,717	Benefit & loss related pmts	568,033
LAE incurred	195,271		
Undrw expenses incurred	258,383	LAE & undrw expenses paid	418,467
Div to policyholders	3,611	Div to policyholders	4,363
Net investment income	115,734	Investment income	113,927
Other income/expense	-11,248	Other income/expense	-24,152
Realized capital gains	17,536		
Income taxes incurred	17,923	Income taxes pd (recov)	28,395
Net income	22,087	Net oper cash flow	114,047

LIBERTY MUTUAL INSURANCE COMPANIES

175 Berkeley Street, Boston, MA 02117

Web: www.libertymutual.com

Tel: 617-357-9500

AMB#: 00060

Fax: 617-426-3221

BEST'S RATING

Based on our opinion of the group's Financial Strength, it is assigned a Best's Rating of A (Excellent). The group's Financial Size Category is Class XV. Refer to the Preface for a complete explanation of Best's Rating system and procedure.

RATING UNIT MEMBERS

Liberty Mutual Insurance Companies

(AMB# 00060):

AMB#	COMPANY	RATING	POOL %
02283	Liberty Mutual Insurance Co	A p	66.50
02159	Employers Ins Co of Wausau	A p	16.00
02282	Liberty Mutual Fire Ins Co	A p	10.00
01812	Liberty Insurance Corporation	A p	6.00
02550	Wausau Business Insurance Co	A p	0.40
04274	Wausau General Insurance Co	A p	0.40
00956	Wausau Underwriters Ins Co	A p	0.40
10765	LM Insurance Corporation	A p	0.20
10764	First Liberty Ins Corp	A p	0.10
11812	Bridgefield Casualty Ins Co	A r	
12158	Bridgefield Employers Ins Co	A r	
03795	LM General Insurance Company	A r	
03794	LM Personal Insurance Company	A r	
04785	LM Property & Casualty Ins Co	A r	
12569	Liberty County Mutual Ins Co	A r	

Liberty Mutual Insurance Companies

(AMB# 00060):

AMB#	COMPANY	RATING	POOL %
11798	Liberty Ins Co of America	A r	
02087	Liberty Insurance Underwriters	A r	
12410	Liberty Lloyds of Texas Ins Co	A r	
03028	Liberty Personal Insurance Co	A r	
12078	Liberty Surplus Ins Corp	A r	

RATING RATIONALE

Rating Rationale: The rating applies to the group's nine member pool, led by Liberty Mutual Insurance Company and eleven reinsured domestic affiliates. The rating reflects the group's strong global franchise, solid capitalization and successful risk mitigation and business diversification strategies. Partially offsetting these positive factors are the variability in overall earnings which trail the peer composite during the recent five year period, reflective of storm related losses and areas of ongoing adverse loss reserve development associated with both the workers compensation and asbestos and environmental lines. Despite these concerns, the rating outlook is reflective of the recent improvement in operating performance in combination with access to capital to fully support operations.

Liberty Mutual is the nation's sixth-largest property/casualty insurer based on 2004 direct premiums written and boasts four well-balanced business units: Personal Market, Commercial Markets, Agency Markets, and Liberty International. The group's diversified franchise benefits from its well-regarded service reputation, strong client relationships and effective, low-cost distribution network. The franchise was further enhanced by the acquisition of Prudential Financial, Inc.'s personal lines operations in 2003. Personal lines business continues to rank high among the group's top performing underwriting segments. In addition, Liberty Mutual's extensive unbundled service capabilities, risk management services and strategic alliances with managed care networks provide a significant competitive advantage and a superior market profile.

In 2004, Liberty Mutual's capitalization improved as net income, unrealized gains, and capital contributions related to a March 2004 debt offering by Liberty Mutual Group, Inc. (LMGI), the direct parent of Liberty Mutual Insurance Company, combined to increase policyholders' surplus by over \$1.5 billion. In March 2005, LMGI raised an additional \$500 million of new debt, the proceeds of which were contributed to the insurance subsidiaries. Given the group's business plan and growth expectations, A.M. Best believes capitalization will remain supportive of the group's rating in the near term, which is contemplated in the rating outlook.

Due to the increased diversification of Liberty Mutual's operations and continued focus on underwriting discipline, A.M. Best anticipates the group's profitability will remain favorable over the next few years. Private passenger automobile insurance, the group's largest growth line, and commercial lines business has experienced solid earnings over the most recent years.

A.M. Best's primary rating concern is the ongoing drag on earnings from continued adverse development on Liberty Mutual's loss reserves. Adverse development of prior accident year loss reserves continued to dampen earnings in 2005 following a comprehensive "ground-up" review of the group's exposure to asbestos claims which led to an increase in asbestos reserves of \$203 million through September 30, 2005 as well as additional development on its core reserves. In prior years, the group was impacted by adverse loss reserve development related to rising medical cost inflation and higher than expected utilization of medical services associated with the workers' compensation results. Notwithstanding these reserve charges, while the group's operating profitability has improved in recent years, return measures during the most recent five-year period trail the peer composite, which is reflective of the combined impact that elevated loss ratios and adverse reserve development have had on underwriting performance.

Best's Rating: A

Outlook: Stable

FIVE YEAR RATING HISTORY

Rating as of July 24, 2006: A

Date	Best's Rating	Date	Best's Rating
01/25/06	A	02/06/02	A+
06/17/04	A	09/27/01	A+u
03/07/03	A		

KEY FINANCIAL INDICATORS (\$000)

Statutory Data						
Period Ending	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus
2001	11,199,072	10,166,947	-694,470	-293,011	32,883,171	6,456,734
2002	13,575,296	11,872,334	174,416	357,559	33,908,050	5,736,211
2003	15,209,079	12,514,360	386,098	581,991	36,835,132	7,218,780
2004	16,158,612	13,207,939	336,565	672,758	37,951,435	8,735,132
2005	16,560,115	13,946,514	690,956	910,413	42,061,841	9,871,463

	Profitability			Leverage			Liquidity		
	Comb.	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)	
2004	126.3	5.2	-7.0	63.0	1.6	5.5	125.3	108.8	
2003	109.0	6.0	1.6	51.1	2.1	6.8	121.3	108.8	
2002	106.0	5.5	3.2	48.3	1.7	5.6	125.1	113.6	
2001	105.5	4.6	2.6	46.4	1.5	4.8	130.6	116.3	
2000	105.4	5.1	5.1	41.8	1.4	4.6	131.4	122.5	
1999	109.7	5.3	1.5	

* Data reflected within all tables of this report has been compiled through the A.M. Best's consolidation of statutory filings. Within several financial tables of this report, this group is measured against the Commercial Casualty Composite.

Due to A.M. Best's consolidation procedures, historical data of recent acquisitions is included within the financial tables for all years.

CORPORATE OVERVIEW

The Liberty Mutual Insurance Companies ("Liberty"), led by Liberty Mutual Insurance Company ("Liberty Mutual"), is a diversified global insurance organization principally engaged in domestic property/casualty and health insurance, international property/casualty insurance, as well as loss control and other services. Through its traditional cost-efficient direct agency business as well as through independent agents in its Regional Agency Markets business unit and captive agents in its Personal Market business unit, Liberty's insurance operations offer a full array of personal and commercial insurance coverages. Liberty's principal market is the United States where it is widely recognized and licensed in all 50 states. Including Canada, domestic property/casualty insurance companies generate roughly three-quarters of Liberty's total revenue.

Actively pursuing broader international presence, Liberty International has been successful in investing in overseas markets and businesses since its start up in 1993. International business comprises local Personal Lines and Commercial businesses in Latin America, southern Europe and Asia together with global commercial specialty lines insurance and reinsurance businesses operated under the Liberty International Underwriters (LIU) brand. In Latin America, Liberty now has a significant presence in Venezuela, Colombia, Chile, Brazil, and Argentina. The group also has significant operations in Spain and Portugal. In Asia, Liberty became the first foreign property/casualty insurance company in western China and also has operations in Thailand, Singapore, and Hong Kong. The LIU segment of the Liberty International business unit includes branch operations in the US, Canada, Australia and Singapore together with subsidiary company operations in Europe. LIU's European operations are headquartered in London with other operations in Dublin, Paris and Cologne. These operations include a London Market Company, Liberty Mutual Insurance Europe Limited and Liberty Lloyd's Syndicate 4472 (formerly 190 and 282). Liberty Mutual Insurance Europe Limited (formerly known as Liberty Mutual Insurance Company (U.K.) Limited) was reorganized under a new management team and recapitalized after the events of September 11, 2001. Liberty's Syndicates have the fourth largest capacity at Lloyd's for the 2004 year and account for Liberty International generates approximately 20% of Liberty's consolidated revenue and is expected to be a significant contributor in the future.

Beginning in 1997, Liberty formed its Agency Markets business unit, which achieved critical mass in 1999 with the acquisition of the U.S. property/casualty operations of Guardian Royal Exchange. Through the Agency Markets, Liberty entered the independent agency-distributed small commercial and personal lines markets. This business unit continues to grow due to Liberty's acquisition of the independent agency business of the American Insurance Group (excluding New England, New York and New Jersey), which provided Liberty access to approximately \$1.0 billion book of commercial and personal lines independent agency business.

In addition to Liberty's property/casualty operations, Liberty Life Insurance Company of Boston (Liberty Life) primarily provides traditional life insurance settlements, and disability products to individuals and businesses through its exclusive direct agents, banks and brokers, making up approximately 3% of Liberty's consolidated revenues.

Outside, Liberty has over 900 offices and approximately 38,000 employees operating in 17 countries.

Liberty's property/casualty business is underwritten by over 40 insurers, led by Liberty Mutual Insurance Company. Within its commercial book, Liberty provides traditional workers' compensation products and alternative products including products with larger deductibles and service-only products. In addition, the group has expanded its managed care operation to be structured its claims operation away from a functional approach to a risk-based team approach. In personal lines, the group continues to grow, penetrating more profitable states and maintaining its strong local market presence through its broad network of low-cost captive agents in its Personal Market business unit and via independent agents in its Regional Agency Markets business unit.

As of 2004, Liberty Mutual formed two mutual holding companies which operate Liberty Mutual and Employers Insurance Company of Wausau

(formerly named Employers Insurance Company of Wausau A Mutual Company) as the initial step in an overall plan to bring its three primary insurance affiliates under a single mutual holding company structure. The single mutual holding company structure creates a more streamlined, efficient governance and administrative process, while preserving the separate identities and brands of the companies within the Liberty Mutual Group. In 2002, Liberty merged the mutual holding companies, with Liberty Mutual Holding Company (LMHC) being the survivor, and Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, and Employers Insurance Company of Wausau became wholly-owned subsidiaries of LMHC. The process, approved by the Massachusetts and Wisconsin insurance departments and policyholders, was completed in March 2002.

In May 2003, Liberty Mutual announced the acquisition Prudential Financial Inc.'s U.S. property/casualty operations in 47 states, excluding New Jersey, specialty auto and affinity business. This acquisition, which gives Liberty Mutual a \$1.1 billion book of personal auto and homeowners renewals, is consistent with the group's strategy to diversify its product offerings by expanding its personal lines segment. The acquisition closed on October 31, 2003.

A.M. Best assigns four distinct ratings to the property/casualty group. The first rating is based on the consolidated operating performance and condition of the group's nine member intercompany pool and eleven reinsured affiliates, led by Liberty Mutual Insurance Company, as well as the insurance subsidiaries of Liberty Northwest Group and Liberty Insurance Holdings. This rating applies to Liberty Mutual's pool members and reinsured affiliates. The second rating is assigned separately to Liberty Northwest Group, which is an autonomous operation. Liberty Northwest specializes in providing workers' compensation, personal and other commercial coverages primarily in its home state of Oregon and other northwest states. The third rating is assigned separately to the property/casualty subsidiaries of Liberty Insurance Holdings, Inc., parent company of the former U.S. operations of Guardian Royal Exchange (GRE), which, led by Peerless Insurance Company, focus on agency-produced commercial and personal lines business. The final rating unit is San Diego Insurance Company, a wholly-owned subsidiary of Golden Eagle Insurance Corporation incorporated in August 1997 to reinsure the liabilities assumed in the Golden Eagle transaction. Due to its run-off status, San Diego Insurance Company is assigned a Best Rating of NR-3 (Rating Procedure Inapplicable).

CORPORATE STRUCTURE

AMB	COMPANY NAME	DOMICILE	% OWN
51114	Liberty Mutual Holding Co Inc	MA	
51115	LMHC Mass Holdings Inc	MA	100.00
51116	Liberty Mutual Group Inc	MA	100.00
02159	Employers Ins Co of Wausau	WI	100.00
50251	Wausau Holdings Inc	DE	100.00
72994	Wausau (Bermuda) Ltd	Bermuda	100.00
02282	Liberty Mutual Fire Ins Co	MA	100.00
02283	Liberty Mutual Insurance Co	MA	100.00
50249	Berkeley Management Corp	TX	100.00
12569	Liberty County Mutual Ins Co	TX	
12410	Liberty Lloyds of Texas Ins Co	TX	100.00
11325	Colorado Casualty Ins Co	CO	100.00
10764	First Liberty Ins Corp	IA	100.00
12076	Golden Eagle Insurance Corp	CA	100.00
12077	San Diego Insurance Company	CA	100.00
11798	Liberty Ins Co of America	IL	100.00
87725	TD Home and Auto Insurance Co	Canada	100.00
83449	Liberty Ins Group Cia Seg Reas	Spain	99.99
89969	Liberty Iberia, S.A.	Spain	100.00
83442	Genesis Seg Generales Seg Reas	Spain	99.99
84188	Metlife Mexico, S.A.	Mexico	100.00
50206	Liberty Insurance Holdings Inc	DE	100.00
50209	LIH US P&C Corporation	DE	100.00
02186	America First Insurance Co	NH	100.00
00349	Excelsior Insurance Company	NH	100.00
51117	Gulf States AIF Inc.	TX	100.00
12568	America First Lloyds Ins Co	TX	
02254	Indiana Insurance Company	IN	100.00
02253	Consolidated Insurance Co	IN	100.00
02393	Netherlands Insurance Co	NH	100.00
02394	Peerless Insurance Company	NH	100.00
50207	Liberty-USA Corporation	DE	100.00
02088	Peerless Indemnity Ins Co	IL	100.00
04090	American Ambassador Cas Co	IL	100.00
02202	Globe American Casualty Co	OH	100.00
02087	Liberty Insurance Underwriters	NY	100.00
02323	Midwestern Indemnity Company	OH	100.00
02322	Mid-American Fire & Cas Co	OH	100.00
00900	Hawkeye-Security Insurance Co	WI	100.00
50208	National Corporation	DE	100.00
03672	National Insurance Association	IN	100.00
06627	Liberty Life Assur of Boston	MA	90.00

To view a company's complete BEST'S COMPANY REPORT, refer to BEST'S INSURANCE REPORTS on CD-ROM, or go online at www.ambest.com/bir

LIBERTY MUTUAL INSURANCE COMPANIES

AMB	COMPANY NAME	DOMICILE	% OWN
50193	Liberty Massachusetts Trust	MA	100.00
50211	Liberty International Holdings	DE	100.00
83632	Liberty Ins Cia de Seg y Reas	Spain	57.46
50216	Liberty Intern Asia Pac Hldgs	DE	100.00
89002	Liberty Intl (H.K.) Ltd.	Hong Kong	100.00
51119	Kritiya Tun Co. Ltd.	Thailand	49.00
51120	Tun Kaoklai Co. Ltd.	Thailand	100.00
89001	Narai Intern Ins Co Ltd	Thailand	62.00
50106	Liberty Citystate Holdings PTE	Singapore	100.00
83999	Liberty Insurance PTE Ltd	Singapore	100.00
89000	Liberty International Ins Ltd	Hong Kong	66.36
50213	Liberty Intern Latin Amer Hldg	DE	100.00
51121	LI (Columbia) Holdings Ltd	Bermuda	100.00
84356	Liberty ART SA	Argentina	99.90
89971	Liberty Seguros Argentina S.A.	Argentina	100.00
50214	LILA (Colombia) Holdings Ltd	Bermuda	100.00
85597	Liberty Seguros S.A.	Colombia	95.00
83998	Liberty Seguros de Vida	Colombia	57.59
84357	Seguros Caracas de Liberty Mut	Venezuela	99.20
83997	Seguros Pan Am de Liberty Mut	Venezuela	99.80
51122	Liberty Intl (Spain) Hldgs LLC	Spain	100.00
83996	Liberty Intl Iberia S.L.S.	Spain	75.27
89970	Liberty Europea Seg S.A.	Portugal	100.00
50215	Liberty Intern Brazil Ltda	Brazil	99.00
87994	Liberty Paulista Seguros SA	Brazil	98.80
87425	Liberty Mutual Ins Europe Ltd	United Kingdom	100.00
50250	Liberty Intern Ireland Hldgs	Ireland	100.00
87184	Liberty International Ins Co	Ireland	100.00
56913	Liberty Mutual (Bermuda) Ltd	Bermuda	100.00
51193	Liberty Mutual Mgmt Bermuda	Bermuda	100.00
75757	Arlington Insurance Co Ltd	Bermuda	100.00
87871	Stuart Insurance Group Ltd	Bermuda	19.50
01814	Liberty Northwest Ins Corp	OR	100.00
02372	North Pacific Insurance Co	OR	100.00
02375	Oregon Automobile Ins Co	OR	100.00
01812	Liberty Insurance Corporation	IL	100.00
03028	Liberty Personal Insurance Co	MI	100.00
73155	Liberty Mutual (Bermuda) Ltd	Bermuda	100.00
12078	Liberty Surplus Ins Corp	NH	100.00
03795	LM General Insurance Company	DE	100.00
10765	LM Insurance Corporation	IA	100.00
03794	LM Personal Insurance Company	DE	100.00
04785	LM Property & Casualty Ins Co	IN	100.00
00588	Liberty Mutual Mid-Atlantic	PA	100.00
00662	Montgomery Mutual Ins Co	MD	100.00
50204	Summit Holding Southeast Inc	FL	100.00
12158	Bridgefield Employers Ins Co	FL	100.00
11812	Bridgefield Casualty Ins Co	FL	100.00
57734	US Employers Insurance Co Inc	Cayman Islands	100.00
85093	Wausau Insurance Co (UK) Ltd	United Kingdom	100.00
50205	Wausau Service Corporation	WI	100.00
02550	Wausau Business Insurance Co	WI	100.00
04274	Wausau General Insurance Co	WI	100.00
00956	Wausau Underwriters Ins Co	WI	100.00
89972	St. James Insurance Co Ltd	Bermuda	100.00

Liberty Mutual Fire Insurance Company owns the remaining 10% of Liberty Life Assurance Company of Boston.

National Corporation is the attorney-in-fact for National Insurance Association.

BUSINESS REVIEW

The Liberty Mutual Insurance Companies, led by Liberty Mutual Insurance Company, is principally engaged in underwriting virtually all lines of commercial and personal business and ranks as the fifth largest property/casualty organization in the United States based on 2004 direct premiums written. Liberty's mix is approximately 60% commercial and 40% personal lines, with its once dominant workers' compensation line surpassed in 2002 by the growing personal automobile line. Liberty remains a predominant private-sector player in this market and continues to thrive on its name recognition, customer service, technological advantages, strategic alliances in managed care, and breadth of its products and value-added services. Insurance products and services are solicited primarily through more than 1,500 direct agency sales agents which affords Liberty a significant competitive expense advantage relative to its peers while also enhancing the group's overall franchise value. In addition to direct sales, Liberty also markets commercial products to national insurance brokers and through independent agents. In personal lines, Liberty ranks eighth among the ten largest insurance providers in the United States. Augmenting its vast network of captive agents, Liberty also utilizes an affinity marketing program, which currently offers insurance products to employees of more than 8,700 companies and associations.

Liberty's property/casualty operation is organized geographically into nine regions for the Personal Market, five regions for Agency Markets, and

multiple U.S. divisions for the Commercial Markets. Business operations are managed on an Strategic Business Unit (SBU) basis and are comprised of the Personal Market, Commercial Markets, Agency Markets and Liberty International. The Personal Market SBU serves individual insurance needs including the sale of individual life products and structured settlements for Liberty Life Assurance Company.

The Commercial Markets SBU serves the commercial customer and is comprised of five distinct units: 1) the National Market SBU serves customers with national operations and typically more than 1000 employees. Its insurance products and risk services are distributed through direct sales and broker relationships under the Liberty Mutual brand; 2) the Business Market SBU sells a wide array of insurance products to middle market business under the Liberty Mutual brand through its direct sales agents. The Business Market serves middle market customers, typically with 200 to 1000 employees; 3) Wausau Commercial Insurance SBU markets workers' compensation, auto and liability insurance products to the middle market customers under the Wausau brand via broker and agency distribution channels; 4) Specialty Risks SBU, is responsible for all surety, property and special offerings, including Bermuda-based products and services. Through its direct sales force, independent agents and brokers it offers virtually all brands of the Liberty Mutual Group; 5) Group Market SBU markets non-occupational disability and group life products to companies with more than 1000 employees via direct sales agents and major benefits consulting firms.

Agency Markets (AM) writes small to medium sized commercial accounts and personal lines package policies. All business is produced by independent agents and brokers and is written using one of the nine regional operating entities that comprise AM. The AM business units utilize a matrix organization in which centralized planning, budgeting, and management services are maintained, while the delivery of products and services to insureds remains decentralized. This business strategy provides the group with a competitive advantage over small regional companies by allowing it to recognize operating efficiencies and increased buying power without sacrificing local expertise and market presence.

The International SBU, Liberty International, provides Liberty Mutual's international products and services in Bermuda, Canada, the United Kingdom, Venezuela, Argentina, Brazil, Colombia, Spain and other foreign locales. Liberty International focuses primarily on personal automobile insurance in its indigenous business (i.e. Latin American, Spain) and underwrites commercial risks in its borderless businesses.

Management's strategic objectives continue to be geared toward improving Liberty Mutual's financial performance, reducing earnings volatility through product, geographic and distribution channel diversification, and maintaining a sustainable competitive advantage in its core business operations. As part of this strategy, management has identified three key elements intended to satisfy their objectives: 1) reduce business risk, 2) diversify earnings and 3) improve operating leverage. In its Personal Market operation, the company has redirected its sales activities to produce a more geographically dispersed book of business. The Commercial Markets operation, where Liberty Mutual has historically been a large risk provider, offers unbundled loss services. Commercial Markets also has initiated and expanded managed-care operations, as well as restructured its claims operation away from a functional approach to a service team approach, to hold down loss costs. Additionally, Commercial Markets has reduced its exposure to large property risks in recent years and also closely manages geographic risk. The Regional Agency Markets SBU allows Liberty to further spread its exposure within the commercial markets and diversify earnings. Liberty has been successful in further diversifying its operations through the formation of new companies, establishing new business alliances as well as pursuing mergers and acquisitions, both domestic and international. In September 2001, the group announced the acquisition of OneBeacon Insurance Group's independent agency business outside of New York, New Jersey, and New England, which is designed to transfer OneBeacon's property and casualty business in 42 states and the District of Columbia - approximately \$1.0 billion book of personal and commercial accounts - to Liberty Mutual. Product diversification has also been evidenced by Liberty's heightened emphasis in personal lines and continued diversification away from its dependence on workers' compensation. In furthering this strategy, in May 2003, Liberty announced the acquisition of Prudential Financial's U.S. property/casualty operations in 47 states, excluding New Jersey, specialty auto and affinity business, which gives the group access to a \$1.1 billion book of personal auto and homeowners renewals. During 2004, Liberty sold its Canadian personal lines business consisting of private passenger automobile, homeowners and personal property insurance, to Meloche Monnex, Inc., a member of TD Bank Financial Group. The transaction included the transfer of approximately 350,000 automobile and homeowners insurance policies to Meloche Monnex.